

CITY OF READING,
BERKS COUNTY, PENNSYLVANIA

RESOLUTION NO. 17-2009

I, LINDA A. KELLEHER, City Clerk of the City of Reading, Pa., do hereby certify, that the foregoing is a true and correct copy of the original Resolution passed by the Council of the City of Reading, on the 9 day of Feb, A. D. 2009. Witness my hand and seal of the said City this 9 day of Feb, A. D. 2009.

CITY CLERK

A RESOLUTION OF THE COUNCIL OF THE CITY OF READING, BERKS COUNTY, PENNSYLVANIA, APPROVING AN INTEREST RATE MANAGEMENT PLAN; APPROVING THE FORM OF AN AMENDMENT TO THE EXISTING INTEREST RATE MANAGEMENT AGREEMENT RELATING TO ITS GENERAL OBLIGATION BONDS, SERIES OF 2002; AUTHORIZING THE PROPER OFFICERS OF THE CITY TO EXECUTE AND DELIVER THE AMENDMENT TO THE INTEREST RATE MANAGEMENT AGREEMENT; APPROVING THE MAXIMUM RATE OF INTEREST PAYABLE BY THE CITY UNDER THE INTEREST RATE MANAGEMENT AGREEMENT, AS AMENDED AND THE MINIMUM FIXED RATE OF INTEREST PAYABLE BY THE COUNTERPARTY UNDER THE INTEREST RATE MANAGEMENT AGREEMENT, AS AMENDED; APPROVING THE TERM OF THE AMENDMENT TO THE INTEREST RATE MANAGEMENT AGREEMENT; COVENANTING TO MAKE PAYMENTS UNDER THE INTEREST RATE MANAGEMENT AGREEMENT, AS AMENDED; AUTHORIZING THE PREPARATION OF AN AMENDED DEBT SERVICE SCHEDULE FOR THE SERIES OF 2002 BONDS; AUTHORIZING THE PREPARATION OF A TRANSCRIPT OF PROCEEDINGS TO BE FILED WITH THE DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT; AND AUTHORIZING THE EXECUTION AND DELIVERY OF OTHER NECESSARY DOCUMENTS AND THE TAKING OF OTHER NECESSARY ACTION IN CONNECTION WITH THE FOREGOING.

WHEREAS, the City previously issued its \$25,980,000 original aggregate maturity amount General Obligation Bonds, Series of 2002 (the "2002 Bonds") to provide financing for various projects of the City; and

WHEREAS, the 2002 Bonds are capital appreciation bonds; and

WHEREAS, the 2002 Bonds are currently outstanding in the aggregate maturity amount of \$25,265,000; and

WHEREAS, the City has heretofore appointed Financial S&Lutions LLC as its independent financial advisor (the "Financial Advisor") to, among other things, evaluate whether to enter into interest rate management agreements with respect to all or a portion of the City's outstanding bonds; and

WHEREAS, the City previously entered into an interest rate management agreement with respect to the 2002 Bonds (the "2002 Swaption") pursuant to which the City sold an option to Wachovia Bank, National Association (the "Bank") to obligate the City to enter into a fixed payer interest rate swap with respect to the 2002 Bonds or any refunding bonds which may be issued by the City to refund the City's 2002 Bonds; and

WHEREAS, the City's Financial Advisor has been authorized and directed to prepare an interest rate management plan (the "Interest Rate Management Plan"), in connection with an amendment with respect to the 2002 Swaption for the purpose of trying to reduce the City's interest rate costs on the 2002 Bonds by amending the variable rate payable by the Bank pursuant to the 2002 Swaption; and

WHEREAS, the Interest Rate Management Plan contains guidelines relating to the process for selecting a counterparty and awarding one or more interest rate management agreements, and the City has determined that it is in its best financial interest to enter into the amendment to the 2002 Swaption with the Bank by private sale by negotiation, pursuant to the provisions hereof, the Local Government Unit Debt Act (as hereinafter defined) and the Interest Rate Management Plan with respect to the 2002 Bonds; and

WHEREAS, the City has requested its Financial Advisor to provide a finding that the terms of the amendment to the interest rate management agreement as described herein will be fair and reasonable to the City as of the date of the award of such interest rate management agreement as provided in the Local Government Unit Debt Act (Part VII of Act 177 of 1996, P.L. 1158, as amended) (the "Act" or the "Local Government Unit Debt Act"); and

WHEREAS, the City previously entered into the 2002 Swaption pursuant to a Master Agreement and Schedule to the Master Agreement each dated April 15, 2003, as supplemented by an Amended and Restated Swap Transaction Confirmation thereto dated March 18, 2005 (collectively, the "Original Agreement"); and

WHEREAS, the City desires to enter a new or amended Confirmation with respect to the 2002 Swaption (the "2009 Confirmation") to amend and supplement the terms and conditions of the Original Agreement in order to reduce and manage interest rate costs of the City on the 2002 Bonds; and

WHEREAS, the City desires to approve the Interest Rate Management Plan, authorize the execution and delivery of the 2009 Confirmation and such other documents, agreements, instruments and certificates as shall be necessary or appropriate in connection therewith.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF READING, BERKS COUNTY, PENNSYLVANIA AS FOLLOWS:

1. Enactment of the Interest Rate Management Plan. In accordance with the purposes and objectives of the Local Government Unit Debt Act, as amended, the City hereby enacts and approves the Interest Rate Management Plan, prepared and recommended by the Financial Advisor attached hereto as **Appendix I**, subject to such modifications from time to time as the Managing Director of the City, the City's Financial Advisor and counsel to the City shall approve. The City hereby approves and authorizes the use of the process for selecting a counterparty, and awarding the interest rate management agreement, set forth in the Interest Rate Management Plan. The Financial Advisor is hereby determined to be independent as contemplated by the Local Government Unit Debt Act.

2. Authorization of the 2009 Confirmation. In order to reduce and manage interest costs to the City, the City is hereby authorized to execute and deliver the 2009 Confirmation, the substantial form of which is attached hereto as **Appendix II**. The substantial form of the 2009 Confirmation is hereby approved; provided that: (i) the notional amount of the Original Agreement, as amended by the 2009 Confirmation, shall not exceed the then outstanding principal amount of the 2002 Bonds, (ii) the term of the Original Agreement, as amended by the 2009 Confirmation, shall be no later than the latest maturity date for the 2002 Bonds, (iii) the Original Agreement, as amended by the 2009 Confirmation, shall obligate the City to pay a fixed rate of interest, at the times and in the manner set forth in the 2009 Confirmation, as appropriate, (iv) the Original Agreement, as amended by the 2009 Confirmation, shall obligate the Counterparty to pay a floating rate at levels determined by the Financial Advisor to be fair and reasonable at the time of pricing of the 2009 Confirmation, and (v) although both parties may be required to make certain additional payments to the extent required under the Original Agreement, as amended by the 2009 Confirmation, the periodic scheduled payments payable by the City under the 2009 Confirmation and debt service payable by the City on the 2002 Bonds shall be senior in right and priority of payment to termination payments due under the 2009 Confirmation. The Council hereby authorizes and directs the Mayor of the City or the Managing Director of the City to approve, in his sole discretion, with the advice of the Financial Advisor and Swap Counsel, the delivery date, final pricing, terms and provisions of the 2009 Confirmation entered into by the City, subject to the limitations of this paragraph 2.

3. Execution and Delivery of the 2009 Confirmation. The Mayor of the City is hereby authorized and directed to execute the 2009 Confirmation by manual or facsimile signature; the City Clerk or Assistant City Clerk of the City is hereby authorized to attest by manual or facsimile signature and to affix the seal of the City on the 2009 Confirmation (which is hereby authorized to be impressed or imprinted on the 2009 Confirmation); and following such execution, the officers of the City are hereby authorized to deliver, or to cause to be delivered, the 2009 Confirmation.

The Original Agreement, as amended and supplemented by the 2009 Confirmation, when executed, will be a general obligation of the City. The City hereby covenants that it shall include the amount of scheduled payments due thereunder for each fiscal year in which such sums are payable in its budget for that year and shall include the amount of any termination payments due thereunder in its budget for the fiscal year immediately succeeding the fiscal year in which a termination occurs; shall appropriate such amounts from its general revenues to the payment of such payments; and shall duly and punctually pay or cause to be paid the payments on the dates and places and in the manner stated in the Original Agreement, as amended and supplemented by the 2009 Confirmation, according to the true intent and meaning thereof, and for such proper budgeting, appropriation, and payment of periodic scheduled payments, the full faith, credit and taxing power of the City is hereby irrevocably pledged.

The maximum and estimated scheduled payment amounts which the City hereby covenants to pay under the Original Agreement, as amended and supplemented by the 2009 Confirmation, are set forth in **Schedule I** attached hereto. Because the maximum net payments by fiscal year for periodic scheduled payments of the City, not including any termination payments, and interest on the 2002 Bonds, exceed the amount of interest approved at

the time the proceedings for the 2002 Bonds received a certificate of approval from the Department of Community and Economic Development, the City hereby amends the Ordinance of the City authorizing the 2002 Bonds, reflecting such increase. Attached hereto as **Schedule II** is the maximum combined obligations of the City with respect to the 2002 Bonds taking into account the Original Agreement, as amended and supplemented by the 2009 Confirmation, and the 2002 Bonds, assuming that the maximum rate on the Original Agreement, as amended and supplemented by the 2009 Confirmation, is in effect, but excluding the amount of any termination payment.

4. Authorization of Private Sale By Negotiation. In compliance with Section 8281(e) of the Local Government Unit Debt Act, the Council of the City, in consultation with the Financial Advisor to the City has determined that a private sale by negotiation rather than private sale by invitation or public sale is in the best financial interest of the City with respect to the 2009 Confirmation. Therefore, the 2009 Confirmation shall be awarded to the Bank subject to the requirements of this Resolution; provided that the proceedings have been filed with the Department of Community and Economic Development in accordance with paragraph 7 below. The award of the 2009 Confirmation at a private sale by negotiation in accordance with the other terms and conditions set forth in this Resolution, is hereby deemed to be in the best financial interest of the City and is hereby approved.

5. Execution and Delivery of Documents. The Mayor of the City is hereby authorized to execute and deliver, in the name of the City and on its behalf, the following documents and to approve the final terms, form and substance thereof, and any amendments, modifications or supplements thereto before or after the initial execution and delivery thereof, and to approve the exact notional amount, term and interest rates under the 2009 Confirmation (subject to paragraph 2 above), such approvals to be conclusively evidenced by the execution thereof, and the City Clerk or Assistant City Clerk is hereby authorized to affix to all of the following documents the seal of the City and to attest to the same:

(a) The 2009 Confirmation; and

(b) Such other documents, agreements, instruments and certifications, as the executing officers determine to be reasonable and appropriate to provide for the 2009 Confirmation as authorized by this Resolution.

Copies of the foregoing documents, instruments, agreements and certificates together with the other documents relating to the transactions authorized hereby, in final form as executed and delivered by the parties thereto, shall be filed in the official records of the City.

6. Dating of 2009 Confirmation. The 2009 Confirmation and the other documents, agreements, instruments and certificates executed and delivered in connection therewith are presently expected to be dated as of their date of execution at any time on and after the date of this Resolution. In accordance with paragraph 2 hereof, the Mayor of the City or the Managing Director of the City with the advice of the Financial Advisor and Swap Counsel, is hereby authorized and directed to approve in his sole discretion the date and the final pricing, terms and provisions of the 2009 Confirmation, such approval to be conclusively evidenced by

the execution of the 2009 Confirmation and any other documents, instruments, agreements and certificates executed and delivered by or on behalf of the City in connection therewith.

7. Debt Act Proceedings.

The Mayor of the City, the Managing Director, the City Clerk or Assistant City Clerk of the City are authorized and directed to prepare or cause to be prepared, verify and file the proceedings required by Section 8284 of the Act and to take any and all necessary or desirable action in connection therewith.

The action of the proper officers and the advertising of a summary of this Resolution as required by law in a newspaper of general circulation, is hereby ratified and confirmed, and approved. The advertisement by the City Clerk of the City in said newspaper of the adoption of this Resolution is hereby authorized and directed within fifteen (15) days following the day of final adoption.

8. Binding Effect of Covenants and Agreements. All covenants, obligations and agreements of the City set forth in this Resolution and in the documents, instruments, agreements and certificates authorized hereby shall be deemed to be the covenants, obligations and agreements of the City to the full extent authorized or permitted by law, and all such covenants, obligations and agreements shall be binding upon the City and its successors from time to time and upon any board or body to which any powers or duties affecting the same shall be transferred by or in accordance with law. Except as otherwise provided in this Resolution, all rights, powers and privileges conferred and duties and liabilities imposed upon the City or the members thereof by the provisions of this Resolution or the documents, instruments, agreements and certificates authorized hereby shall be exercised or performed by such members, officers or other representatives of the City as may be required or permitted by law to exercise or perform the same. No covenant, obligation or agreement herein contained or contained in any documents, instruments, agreements and certificates authorized hereby shall be deemed to be a covenant, obligation or agreement of any member, officer, agent or employee of the City in his or her individual capacity and neither the members of Council or officers of the City nor any officer executing the 2009 Confirmation or any other documents, agreements, instruments and certificates authorized by this Resolution shall be personally liable thereunder or be subject to any personal liability or accountability by reason of the execution and delivery thereof.

9. Financial Advisor. The City hereby appoints and engages Financial S&Lutions, LLC to serve as its independent Financial Advisor with regard to all of the transactions from time to time contemplated by this Resolution.

10. Swap Counsel. The City hereby appoints and engages Stevens & Lee, a professional corporation, Reading, Pennsylvania, to act as Swap Counsel to the City with regard to all of the transactions from time to time contemplated by this Resolution.

11. Further Action. The Mayor of the City is hereby authorized and directed to execute such further documents, agreements, instruments and certificates and do such further things as may be necessary or proper to carry out the intent and purpose of this Resolution or any document herein authorized.

12. Repeal of Inconsistent Resolutions. All prior resolutions or parts thereof inconsistent herewith are hereby repealed to the extent of such inconsistency.

13. Effective Date. This Resolution shall take effect immediately.

DULY ADOPTED, THIS 9TH DAY OF FEBRUARY, 2009, BY THE
COUNCIL OF THE CITY OF READING, BERKS COUNTY, PENNSYLVANIA, IN
LAWFUL SESSION DULY ASSEMBLED.

(SEAL)

CITY OF READING, BERKS COUNTY,
PENNSYLVANIA

By: 

President of City Council

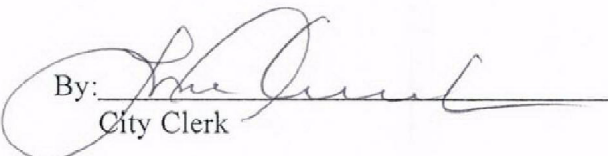
Attest: 

City Clerk

CERTIFICATE OF CITY CLERK

The undersigned, City Clerk of the City of Reading, Berks County, Pennsylvania (the "City"), hereby certifies that the foregoing is a true and correct copy of the Resolution which was adopted by a majority vote of the Council of the City, at a meeting thereof held after due public notice as required by law, on February 9, 2009.

(SEAL)

By: 
City Clerk

APPENDIX I

Interest Rate Management Plan

CITY OF READING, PENNSYLVANIA

INTEREST RATE MANAGEMENT PLAN ADOPTED IN ACCORDANCE WITH THE REQUIREMENTS OF THE LOCAL GOVERNMENT UNIT DEBT ACT OF THE COMMONWEALTH OF PENNSYLVANIA

Updated as of February 9, 2009

*THIS UPDATED INTEREST RATE MANAGEMENT PLAN INCLUDES ALL SCHEDULES AND DOCUMENTS
TO BE FILED WITH THE DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT IN
ACCORDANCE WITH THE PROVISIONS OF THE LOCAL GOVERNMENT UNIT DEBT ACT.*

*THIS INTEREST RATE MANAGEMENT PLAN IS BEING UPDATED IN CONNECTION WITH THE INTEREST
RATE MANAGEMENT AGREEMENT ASSOCIATED WITH THE CITY'S GENERAL OBLIGATION BONDS,
SERIES OF 2002.*

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CITY OF READING
INTEREST RATE MANAGEMENT PLAN

I. Introduction – Current Outstanding Debt of the City.

In accordance with the provisions of the Local Government Unit Debt Act of the Commonwealth of Pennsylvania (“LGUDA”), the City is adopting this Interest Rate Management Plan to establish guidelines for the use and management of interest rate management tools, including, without limitation, derivative products such as interest rate swaps. The Interest Rate Management Plan is prepared in accordance with the provisions of LGUDA regarding the contents of an interest rate management plan.

The City is authorized under the LGUDA to enter into qualified interest rate swaps and other derivative products to reduce the amount and duration of rate, spread, or similar risk when used in combination with the issuance of debt.

The City of Reading’s (the “City”) Interest Rate Management Plan (the “Plan”) includes the execution of a variable-to-fixed swaption (the “Swap”) with the purpose of hedging the City’s General Obligation Bonds, Series of 2002. The appropriate schedules in connection with the City’s proposed Swap can be found in the appendices of this Plan.

The City of Reading’s Interest Rate Management Plan was prepared by Financial S&Lutions LLC, Reading, Pennsylvania. Financial S&Lutions LLC is an independent financial advisory firm, retained by the City, as its independent financial advisor and independent swap advisor in connection with the Swap.

Attached to this report as Schedule I is a compilation of the outstanding general obligation indebtedness of the City, as of the date of this report, February 9, 2009. Subsequent schedules list the remaining debt service requirements of the City with respect to each of the outstanding debt issues:

- General Obligation Bonds, Series of 2002 -- \$12,023,969.40 capital appreciation bonds currently outstanding
- General Obligation Notes, Series of 2005-- \$2,570,000 fixed rate notes currently outstanding
- General Obligation Bonds, Series of 2006 -- \$32,905,000 fixed rate bonds currently outstanding (taxable pension Bonds)
- General Obligation Bonds, Series of 2008 -- \$44,800,000 variable rate bonds currently outstanding (sewer project)
- General Obligation Note, Series A of 2008 -- \$5,210,000 fixed rate notes currently outstanding
- General Obligation Note, Series B of 2008 -- \$6,649,000 fixed rate notes currently outstanding
- General Obligation Notes, Series C of 2008 -- \$16,925,000 variable rate notes currently outstanding (taxable)
- General Obligation Notes, Series D of 2008 -- \$21,015,000 variable rate notes currently outstanding (taxable)
- General Obligation Notes, Series E of 2008 -- \$12,960,000 variable rate notes currently outstanding (taxable)
- General Obligation Bonds, Series of 2009 -- \$25,000,000 variable rate bonds incurred but not currently issued

Total ---- \$180,907,143.30 principal amount of City general obligation debt currently incurred / outstanding

II. Scope and Authority

This Interest Rate Management Plan shall govern the City's use and management of all derivative products, including but not limited to, interest rate swaps. While adherence to this Plan is required in applicable circumstances, the City recognizes that changes in applicable law, the capital markets, agency programs, and other unforeseen circumstances

may from time to time produce situations that are not covered by the Interest Rate Management Plan and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate provided specific authorization from the City Council or Mayor is obtained.

The Interest Rate Management Plan shall be reviewed and updated at least each time the City enters into a new, modified or additional qualified interest rate management agreement. Any such updated or modified or replacement Interest Rate Management Plan must be presented to the City Council for review and approval in accordance with LGUDA.

The City Council shall approve any transaction involving an interest rate swap or other qualified interest rate management agreements in accordance with the requirements of the LGUDA. The City shall be authorized to enter into derivative transactions only with qualified counterparties. The City Council shall have the authority to select the counterparties, so long as the criteria set forth in the LGUDA and the Interest Rate Management Plan are met.

III. Conditions for the Use of Derivative Products

A. General Usage

The City will use derivative products to lock in fixed rates or, alternatively, to create variable rate exposure. Derivative products may be used to produce interest rate savings, limit or hedge variable rate payments, alter the pattern of debt service payments, or for asset/liability matching purposes.

In connection with the use of any swaps, the authorized derivative product(s) will be used to alter interest rate risk and/or alter the cost of borrowing in a beneficial manner, and when used in combination with new or outstanding debt, will enhance the relationship between risk and return, or achieve other policy objectives of the City.

B. Maximum Notional Amount

The City will limit the total notional amount of outstanding derivative products based on criteria set forth in this Interest Rate Management Plan regarding the proper management of risks and the calculation of termination exposure.

C. Liquidity Considerations

The City shall consider the impact of any variable rate debt issued in combination with an interest rate swap on the availability and cost of liquidity support for other City variable rate programs. The City recognizes that there is a limited supply of letter of credit or liquidity facility support for the City's variable rate debt, and the use of liquidity support in connection with a derivative product may result in higher overall costs or reduced capacity from financial institutions.

D. Call Option Value Considerations

When considering the relative advantages of the use of a derivative product with respect to outstanding debt, the City will consider the value of the call option on fixed rate debt

and the potential lack of similar rights when utilizing derivative products. Typically, in a fixed rate debt issue, the City could sell bonds that could be redeemed after 5 to 10 years. In a lower interest rate environment, the City could refinance such fixed rate bonds and realize economic value. Utilizing interest rate swaps to synthetically fix interest rates through maturity may result in initially lower interest rates, but may eliminate the ability of the City to restructure or refinance the outstanding debt to provide economic savings in the future.

IV. Interest Rate Management Features

A. Documenting Derivative Products

The City and each counterparty providing a derivative product to the City will execute a Master Agreement and appropriate Schedule in accordance with the then-current standards of the International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement. The City and counterparty will each accept the terms and conditions as set forth in the Master Agreement. The Master Agreement between the City and each counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as the City, in consultation with its legal counsel, deems necessary, proper or desirable.

Subject to the provisions contained herein, the terms of any City derivative product agreement shall use the following guidelines:

- i. Downgrade provisions triggering termination shall in no event be worse than those affecting the counterparty.
- ii. Governing law for swaps will be New York, with jurisdiction in the Commonwealth of Pennsylvania.
- iii. The specified indebtedness related to credit events in any swap agreement should be narrowly defined and refers only to indebtedness of the City that could have a materially adverse effect on the City's ability to perform its obligations under such agreement. Debt should typically only include obligations within the same lien priority as the swap obligation.
- iv. Collateral thresholds for the swap provider should be set on a sliding scale reflective of credit ratings. Collateral requirements should be established and based upon the credit ratings of the swap provider or guarantor. Collateral should be held by an independent third party, such as a bank ("Trustee").
- v. Collateral should generally be limited to U.S. Treasuries and obligations of Federal Agencies where the principal and interest are guaranteed by the United States. At the discretion of the City Council, other high-quality obligations of Federal Agencies, not secured by the full faith and credit of the U.S. government, may be used as collateral.
- vi. The City shall have the right to optionally terminate a swap agreement at "market," at any time over the term of the agreement.

- vii. Termination value should be set by a "market quotation" methodology, unless the City deems an alternate appropriate.

B. Derivative Product Counterparties

1. Credit Criteria

The City will make its best efforts to work with qualified swap counterparties that have (i) a general credit rating of not lower than "A" (or the equivalent credit rating) by one of the nationally recognized rating agencies, or (ii) an "AAA" rated subsidiary (or the equivalent credit rating) as rated by at least one nationally recognized credit rating agency. The nationally recognized rating agencies are Moody's Investors Services, Inc., Standard and Poor's Rating Services, and Fitch Ratings.

For lower rated (below "A" or its equivalent) counterparties, the City will seek credit enhancement in the form of:

- i. Contingent credit support or enhancement;
- ii. Collateral consistent with the policies contained herein;
- iii. Ratings downgrade triggers;
- iv. Guaranty of parent, if any.

In addition, qualified derivative product counterparties must have a demonstrated record of successfully executing derivative product transactions in Pennsylvania.

2. Counterparty Exposure

The City shall evaluate its exposure to counterparties. To that end, before entering into a swap, the City should determine its exposure to the relevant counterparty or counterparties and determine how the proposed transaction would affect the exposure. The exposure should not be measured solely in terms of notional amount, but rather how changes in interest rates would affect the City's exposure.

C. Term and Notional Amount

In connection with the issuance or carrying of debt, the term of the derivative product agreement shall not extend beyond the final maturity date of the related debt. The total "notional amount" of a derivative product related to a debt issue may not exceed the amount of outstanding debt. For purposes of calculating the notional amount, credit shall be given to any fixed versus variable rate derivative products that offset for a specific debt transaction.

D. Collateral Requirements

As part of any derivative product agreement, the City may, based on credit ratings of the counterparty, require collateralization or other forms of credit enhancements to secure any or all swap payment obligations. As appropriate, the City may require collateral or other credit enhancement to be posted by any swap counterparty if the credit rating of the counterparty or parent falls below the "A" credit rating category. Additional collateral for further decreases in credit ratings of each counterparty shall be posted by each counterparty in accordance with the provisions contained in the collateral support agreement to each counterparty with the City.

Threshold collateral amounts shall be determined by the City on a case-by-case basis. The City will determine the reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter. Collateral shall be deposited with a third party trustee, or as mutually agreed upon between the City and the counterparty. Collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the swap agreement with each swap counterparty. The market value of the collateral shall be determined on a monthly basis or more frequently if the City determines it is in its best interest given the specific collateral security.

E. Security and Source of Repayment

The City will generally use the same security and source of repayment for interest rate swaps as is used for the debt that is hedged or carried by the swap, if any, but shall consider the economic costs and benefits of subordinating the City's payments under the swap and/or termination payment.

F. Prohibited Interest Rate Swap Features

The City will not use derivative products that: (i) are speculative or create extraordinary leverage or risk, (ii) lack adequate liquidity to terminate without incurring a significant bid/ask spread, (iii) provide insufficient price transparency to allow reasonable valuation, or (iv) are used as investments.

V. Evaluation and Management of Derivative Product Risks

Prior to the execution of any derivative product transaction, the City's Financial/Swap Advisor and Swap Counsel shall evaluate the proposed transaction and review the transaction with the City Council. Such a review shall include the identification of the proposed benefit and potential risks.

A. Evaluation Methodology

The City will review the following areas of potential risk for new and existing interest rate swaps:

Type of Risk	Description	Evaluation Methodology
Basis risk/Interest Rate Risk	The mismatch between actual variable rate debt service and variable rate indices used to determine swap payments due to movements in interest rates.	The City will review historical trading differentials between the variable rate debt and the swap index.
Tax risk	The risk created by potential tax events that could affect swap payments.	The City will evaluate the impact of potential changes in tax law on all variable rate indexed swaps.
Counterparty risk	The failure of the counterparty to make required payments.	The City will monitor exposure levels, ratings thresholds, and collateralization requirements of the counterparty.
Termination risk	The need to terminate the transaction in a market that dictates a termination payment by the City.	The City will compute its termination exposure for all existing and proposed swaps at market value and under a worst-case scenario.
Rollover Risk	The mismatch of the maturity of the interest rate swap and the maturity of the underlying debt.	The City will determine its capacity to issue variable rate debt that may be outstanding after the maturity of the swaps.
Liquidity risk	The inability to continue or renew a liquidity facility.	The City will evaluate the expected availability of liquidity support for swapped and unhedged variable rate debt.
Credit risk	The occurrence of an event modifying the credit rating of the City or the counterparty.	The City will monitor the ratings of its counterparties and insurers.

*Specific risks associated with the City's Swap are found in the schedules attached to this document.

B. Managing Derivative Product Risks

1. Reports

The City will evaluate the risks associated with outstanding derivative products periodically and provide a written report to the City Council of the findings. This evaluation will include the following information:

- i. A description of all outstanding derivative products, including related debt series, types of derivative products, rates paid and received by the City, existing notional amount, the average life and remaining term of each swap agreement, and the current termination value of all outstanding swaps.
- ii. The credit rating of each swap counterparty, parent, guarantor, and credit enhancer insuring swap payments, if any.
- iii. Actual collateral posting by swap counterparty, if any, per swap agreement and in total by swap counterparty.
- iv. Information concerning any material event involving outstanding swap agreements, including a default by a swap counterparty, counterparty downgrade, or termination.
- v. The status of any liquidity support used in connection with interest rate swaps, including the remaining term and current fee.

2. Mandatory Termination

In the event a swap is terminated as a result of a termination event, such as a default or a decrease in credit rating of either the City or the counterparty, the City will evaluate whether it is financially advantageous to obtain a replacement swap, or, depending on market value, make or receive a termination payment.

VI. Selecting and Procuring Derivative Products

A. Financing Team

The City will retain the services of an experienced municipal bond counsel firm, and will retain the services of a qualified independent financial advisor or swap advisor for all interest rate swaps.

B. Counterparty Selection

- i. The City may utilize a competitive bidding process to select a counterparty or a negotiated process to select a counterparty and price a swap when it believes market or competitive conditions justify such a process.

VII. Disclosure and Financial Reporting

The City will take steps to ensure that there is full and complete disclosure of all derivative products to the City Council, to rating agencies, and in disclosure documents. Disclosure in marketing documents shall provide a clear summary of the special risks involved with the applicable derivative product and any potential exposure to interest rate volatility or unusually large and rapid changes in market value. With respect to its financial statements, the City will adhere to the guidelines for the financing reporting of interest rate swaps, as set forth by the Government Accounting Standards Board.

VIII. Attached Schedules – Including Schedules Required by Local Government Unit Debt Act

- | | |
|----------------|--|
| Schedule I - | Total Outstanding Debt of the City |
| Schedule II - | Previously Executed Interest Rate Management Agreements |
| Schedule III - | All Professional Fees Associated with the City's proposed Interest Rate Management Agreement |
| Schedule IV - | Maximum Scheduled Payments to be Paid and Received by the City in Connection with the proposed Interest Rate Management Agreement

Estimated Scheduled Payments to be Paid and Received by the City in connection with the proposed Interest Rate Management Agreement |
| Schedule V - | Analysis of risks of Entering into the Interest Rate Management Agreement |
| Schedule VI - | Termination Values of the proposed Interest Rate Management Agreement |

SCHEDULE I

TOTAL OUTSTANDING DEBT OF THE CITY